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Comparative evaluation of the labour income taxation in the Baltic States

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Abstract

The present paper discusses the concept of labour income and its taxation by personal income tax, social security and health insurance contributions, presented in the literature. In order to reveal the influence of the basic tax elements on the evaluation of the level of the labour income taxation, comparative evaluation has been carried out. During the research, Latvia and Estonia, the countries that are closely related to Lithuania, have been compared. The results of the research have shown that the comparison of the basic tax indicators, such as non-taxable minimum income and standard rates, describes the national level of the labour income taxation only partially. A more accurate description of the tax level could be provided only after applying ratios and evaluating such factors as tax base and tax exemptions.

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Keywords: labour income; tax; contribution; taxation; evaluation.

1. Introduction

Income reveals the consumption and saving potential of a person as well as the socio-economic development of a state. Taxation of income is related to the welfare of inhabitants – the higher the taxes, the smaller is the amount of income at their disposal. It is also related to the welfare of the state – direct taxes are one of its main resources of revenue. Income taxation is one of the most complicated elements of the state tax policy – it is the goal of the state to ensure sufficient revenue into the state budget as well as create a favorable labour taxation environment (high tax on

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labour income stimulates migration of labour force and, when generous social policy comes along, it encourages living on benefits). The fact that this area has become especially sensitive can be proven by the recent changes in income taxation introduced in most countries over the last years: gradual reform of personal income tax has been implemented in Denmark since 2009, Latvia has been decreasing its personal income tax rate since 2011, since 2009 Poland has imposed two income tax rates (18 and 32 per cent) instead of the former 3 ones (19, 30 and 40 per cent), as of 2014 Lithuania will start increasing the non-taxable amount of income, France has increased the top income tax rate for high-income earners since 2013, in 2011 Hungary changed the progressive personal income tax rate into a 16 per cent proportional rate. During the last ten years fundamental changes took place in the Lithuanian tax system (in improving tax administration, legal framework and taxation mechanism). It is often stated, however, that very high taxes are withheld from labour income in Lithuania. Is it really true? This research aims to produce a comparative evaluation of labour income taxation of the three Baltic States (Lithuania, Latvia and Estonia). Comparative and logical analysis of statistical data and literature was performed and synthesis methods were applied in conducting this research.

The issue of taxes is widely researched both in special as well as scientific literature and quite a lot of attention is paid to different taxation aspects. Taxation principles, functions of tax system, its conception were studied by Cheung (2001), Tušaitė (2003), Šinkūnienė (2005), Ivaškaitė (2013), evaluation of its components was performed by Klun (2003), Lukyanenko (2003), Budrytė and Mačiulaitytė (2004), Lambert (2004), Medelienė (2005), Toder (2007), Mažeika (2008). The article does not aim to develop the subject of improving labour income taxation. On the contrary, it raises the question of practical assessment of labour income taxation – whether comparison of the core elements in labour income taxation allows having an objective evaluation of the extent of income taxation in a country. Such a research, having made comparisons of the main tax elements in the Baltic States, and having compared them to the relative indicators, would allow us to make conclusions about the validity of the evaluation.

2. Concept of labour income

The word "income" is an economical term, an index which defines the welfare of inhabitants and the state. Income in this work – the object of taxes and contributions – is analyzed on the level of inhabitants (the main difference between the revenue of the state and the income of its inhabitant being the fact that certain income earned by an inhabitant due to income tax and social security contributions, actually, is not received by the inhabitant.)

In economics the income of a person during a certain period of time – is an amount of money that he or she could spend without decreasing the value of his or her capital (Black et al., 2013). These are earnings or income received that can be spent on consumption or savings. In order to get the income to satisfy their needs, people use such resources as human ones, as well as physical property and financial assets. These resources provide income that can be classified into four categories according to the source of income (see Table 1).

Table 1. The main sources of personal income (Blažienė, 2002)

No.	Sources of Income	Essence
1.	Employment income	Labour remuneration according to the level of qualification of the employee, complexity of work, responsibilities, conditions, etc.
2.	Self-employment income	Revenues derived from self-employment work in agriculture, business, crafts, and free professional activities
3.	Income from financial assets	Interests, rental income, dividends
4.	Income in the form of social benefits	Pensions, allowances

The methodology of Statistics Lithuania (LSD, 2010) defines the combined household income as all the income of the household received from employment or self-employment, property income or land rental, social benefits, regular cash transfers from other households, dividends and other income. It is obvious that, according to this methodology, an inhabitants‘ income is the sum of different kinds of income – salary, income from personal business, rent as well as transferrable state allowances (EC, 2013a). The Law on Personal Income Tax of the Republic of Lithuania (LRS, 2002) defines income as positive income, remuneration for the works or services performed, assets or funds sold or otherwise transferred or invested and any other benefit in cash and/or in kind. This law definition corresponds to the forms of income 1–3 as specified in Table 1 above.

Meanwhile, the labour income is defined as a traditional way of earning money, i.e. selling man-hours for a certain fee (Ramsden, 2007). The Law on Personal Income Tax defines employment related income or corresponding income as follows: income received for the work performed under the contract of employment or corresponding contracts as well as income received by the owner of a sole proprietorship from a sole proprietorship, a general partner of a general partnership or a member of small partnership from a corresponding partnership. In this work labour income is treated as remuneration for work performed – income that an employee receives for his or her work (see line 1 in Table 1). Employment income is the main source of personal income. In 2012 in Lithuania, for example, remuneration for work accounted for about 70 per cent of all personal income (LSD, 2013). It is also the main source of revenue of the state from direct taxes. In 2012, for example, personal income tax revenue labour income accounted for 81.1 per cent of all the revenues from this tax.

There are four types of taxes and contributions imposed on labour income in Lithuania: personal income tax, state social insurance, compulsory health insurance and guarantee fund contributions. These taxes and contributions are regulated by relevant legislation presented in chronological order in Table 2 below.

Table 2. Legislation regulating income taxation in Lithuania

Year	Legal Act	Short Content (main provisions)
1990	Provisional Law on Income Tax of Natural Persons of the Republic of Lithuania (Official Journal „Valstybės žinios“, 1990, No. 31-742)	Tax payers – persons receiving income, the object – income of natural persons. There were 8 different rates set. A progressive rate was imposed on income received from the second job. Invalid as of 01-01-2003.
1991	Law on State Social Security of the Republic of Lithuania (Official Journal „Valstybės žinios“, 1991, No. 17-447)	The law defines the types of insurance as well as the categories of the insured persons; insurance management system principles, structure, the rights of the subjects, their duties and responsibilities. The new edition of the law entered into force on 01-01-2005.
1996	Law on Health Insurance of the Republic of Lithuania (Official Journal „Valstybės žinios“, 1996, No. 55-128)	Defines the persons whose health insurance is compulsory, the basics of drawing the budget and compensating the expenses, institutions responsible for arranging the insurance, the rights of the insurance subjects, their duties and responsibilities. The new edition of the law entered into force on 1 January 2003.
2000	Law on Social Insurance of Occupational Accidents and Occupational Diseases of the Republic of Lithuania (Official Journal „Valstybės žinios“, 1999, No. 110-3207)	Persons are compulsorily insured by the employer who pays social insurance contributions from the gross earnings of the employee for the work performed, the rates of the contributions depend on the level of the risk of the company's economic activity.
	Law on Guarantee Fund (Official Journal „Valstybės žinios“, 2000, No. 82-2478)	The payers – legal persons, the rate – 0.2 % of the gross earnings of the employees from which state social insurance contributions are calculated.
2003	Law on Personal Income Tax of the Republic of Lithuania (Official Journal „Valstybės žinios“, 2002, No. 73-3085)	Defined the order of taxation on personal income, its principles, the rights and duties of the payers. The object – personal income. The object of the tax differs depending on the permanent and non-permanent residence in Lithuania. Two rates were set – 15% and 33%. According to the payment order, the income is divided into two categories - A and B. In 2005 when an amending law came into effect, the main tax rate was reduced as follows: starting from the second half of 2006 – to 27%, starting from 1 January 2008 – down to 24%. The rate as of 2009 – 15%.
2009	Law on Replacing Clauses 2, 6, 8, 15, 16, 17, 18,19 and Supplementing the Health Insurance Law of the Republic of Lithuania (Official Journal „Valstybės žinios“, 2008, No. 149-6022)	Contributions for compulsory health insurance were separated from the personal income tax, the 3, 6 and 9 per cent contributions rates were set; compulsory insurance on health insurance was introduced.

3. Personal income taxation

In order to analyse labour income taxation in Latvia and Estonia and compare it to labour income taxation in Lithuania we should, first of all, discuss the established minimum monthly wage in each state that ensures minimal income of working people. Lithuania, Latvia and Estonia have established a minimum monthly (hourly) wage that the employer has to pay to the employee regardless of his or her position.

During the analysed period the rate of minimum monthly wage both in Latvia and Estonia differs from that of the established rate in Lithuania. According to Eurostat (EC, 2013b) data, Lithuania had the lowest minimum wage from 2009 to 2012 (on 1 August 2012 the minimum monthly wage in Lithuania was increased to 850 Lt but, nevertheless, it remained the lowest one in comparison with other Baltic states), and in 2013 it was the lowest in Latvia (Fig. 1).

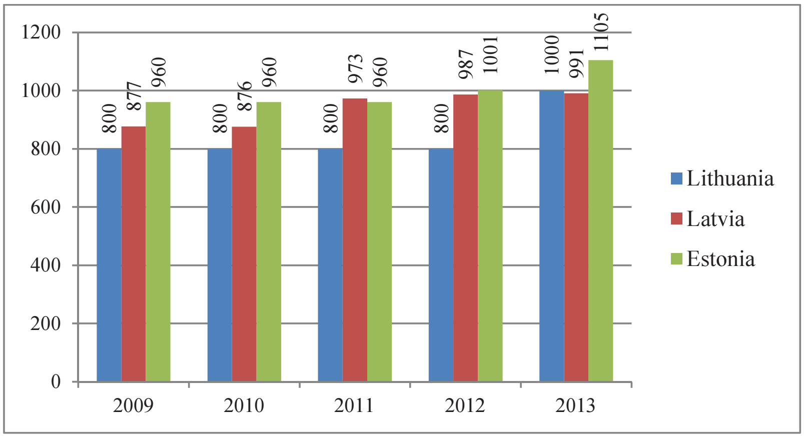

Fig. 1. Dynamics of the minimum monthly wage in Litas (EC 2013b)

Fig. 2. Tax-exempt amount in Litas (EC 2013b)

The minimum monthly wage in Lithuania in 2013, as compared to 2009, increased by 25 per cent, in Latvia – 13 per cent. The minimum remuneration in Estonia did not change over the period of 2009–2011 and in 2012 it increased by 41 Lt, in 2013 by another 104 Lt and, if we compare the year 2009 and 2013, the minimum monthly wage here increased by 15 per cent. To sum up the rates of minimum wages in the three Baltic States, an observation can be made that the minimum monthly wages in Lithuania, Latvia and Estonia kept increasing. The minimum monthly wage in the period of 2009–2012 was the lowest in Lithuania whereas in 2013 it was the lowest in Latvia which has been slightly overtaken by Lithuania (9 Lt).

Most countries, including the Baltic States, apply a non-taxable income amount on labour income. Figure 2 presents the changes of the non-taxable income amount during the period of 2009–2013 (EC 2013b).

During the whole analysed period (from 2009 up to 2013) both in Lithuania and Estonia the main tax-exempt amount applied on personal income tax did not change. During the analysed period the tax-exempt amount applied on personal income in Lithuania reached 470 Lt, in Estonia – 5 per cent or 27 Lt more. As a matter of fact, starting from 2014 the established tax-exempt amount is going to be 570 Lt. Meanwhile, the tax-exempt amount on personal income in Latvia during the analysed period kept fluctuating and only in 2011 it settled and reached 222 Lt.

The biggest difference in the tax-exempt amount was in Estonia and Latvia in 2010 when the tax-exempt amount in Latvia was 148 Lt whereas in Estonia it reached even 497 Lt, i.e. in Estonia the tax-exempt amount on the income of its inhabitants was 3 times bigger (if we compare Latvia and Lithuania, the difference is slightly smaller but also exceeds it 3 times). In 2013 the tax-exempt amount on personal income of the inhabitants of Lithuania is more than 2 times bigger than the one applied in Latvia and 5 per cent smaller than in Estonia.

It is obvious that the highest non-taxable amount applied during the analysed period is in Estonia. Although the minimum wage in Latvia by the end of 2013 was 16 per cent higher than in Lithuania, the non-taxable income amount was 2.5 times smaller. We may state a *priori* that, under such conditions, an employee in Latvia receiving a minimum monthly wage pays an income tax from a higher taxable income amount.

As mentioned above, a non-taxable income amount is applied in taxation of labour income with personal income tax. The personal income tax is calculated according to the personal income rates set by every individual state.

The rate of personal income tax imposed in Lithuania and Estonia within the analysed period, i.e. from 2009 to 2013 did not change: during all the five years the personal income tax in Lithuania was 15 per cent, in Estonia – 21 per cent (see Fig. 3). Meanwhile, the personal income tax rate in Latvia keeps slightly changing. The highest tax rate imposed in Latvia was in 2010. At that time it was 26 per cent. In 2011 it was reduced by 1 per cent – down to 25 per cent and in 2013 by one more per cent – down to 24 per cent. If we compare 2013 and the beginning of the analysed period (2009), the personal income rate in Latvia has increased by 1 per cent.

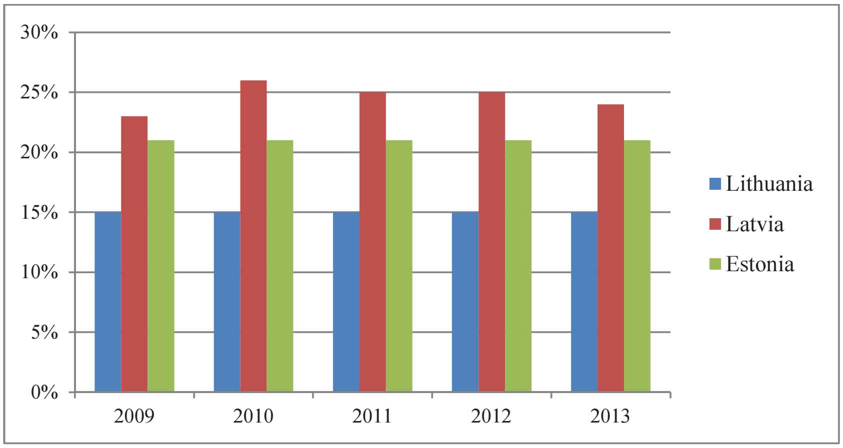

Fig. 3. Dynamics of standard rates of personal income tax (EC 2013b)

The personal income tax rate in Lithuania in comparison with Estonia and Latvia is the lowest one. During the analysed period the rate of this tax, if Lithuania and Estonia are to be compared, is smaller by 6 per cent. Therefore, if other conditions are excluded, we may state that taxation of personal income in Lithuania is smaller than that of Estonia.

Comparison of the three Baltic States shows that the highest standard personal income tax rate is imposed on personal income in Latvia. Personal income tax rate in Latvia during 2011–2012 was 10 per cent higher than in Lithuania (in 2013 – 9 per cent higher). The biggest difference in rates between Latvia and Lithuania was in 2010 when personal income tax rate in Latvia was higher by 11 per cent.

To sum up the labour income taxation with a personal income tax, we can make an observation that even though the minimum monthly wage in Lithuania in 2009–2012 was the lowest one (on average by 21 per cent as compared to Estonia and by 16 per cent if compared to Latvia), the non-taxable income amount was on average 2.5 times bigger than in Latvia and only by 5 per cent smaller than in Estonia. The imposed personal income tax rate in Lithuania during the analysed period was the lowest one as compared to other Baltic States – 40 per cent smaller than in Estonia and on average 60 per cent smaller than in Latvia. It can be assumed that the burden of taxable personal income in Lithuania is the lowest one: in 2013 an employed person in Estonia that receives a minimum monthly wage pays 123.04 Lt in taxes, in Latvia – 184.56 Lt, and in Lithuania – only 85.5 Lt. The fact that the burden of personal income tax in Lithuania is the lowest one has also been confirmed by Eurostat data (EC, 2013c). For example, in 2011 the revenue from the personal income tax in Estonia was 5.3 per cent of gross domestic product (GDP), in Latvia – 5.6 per cent of GDP and in Lithuania – only 3.5 per cent of GDP (Eurostat methodology also includes other taxes directly related to income, such as church tax, etc.).

4. Taxation of labour income with contributions

Similarly to Lithuania, in Latvia and Estonia labour income is taxed with state security and compulsory health insurance contributions. Compulsory social security contributions in Latvia as well as in Lithuania are paid both by the employer and the employee. An observation should be made that during the whole analyzed period of 2009–2013 the contribution rate imposed on the employer in Latvia remained stable whereas the contribution rate levied on the employee kept changing. Starting from the beginning of the analyzed period up until 2011 the contribution rate imposed on the employee reached 9 per cent, in 2011 the rate was increased by 2 per cent up to 11 per cent. Such a tendency has also remained in 2013 – the total contributions amount in 2013 is 35.09 per cent, 24.09 per cent of which is paid by the employer and 11 per cent – by the employee.

In Estonia the employer pays a social tax on the labour income of every employee before any other taxes. Revenues from this tax finances health and pension insurance. Differently from Lithuania and Latvia, the social tax is paid only by the employer (except the case when an employee participates in the second pillar funded pension scheme and transfers 2 per cent from the remuneration before taxes to the personal pension account). During the whole analyzed period of 2009–2013 the social tax rate in Estonia remained unchanged – 33 per cent, 20 of which is allocated for pension insurance and 13 per cent – health insurance contributions (besides, there is a set maximum taxable base – 198720 Lt a year, above which contributions are not calculated). The employer and the employee are compulsorily insured against the unemployment, the contribution rate in 2012 was respectively 1.4 and 2.8 per cent of the remuneration. According to the Eurostat data (EC, 2013b), the social tax in Estonia in 2011 is accounted for 12.1 per cent of GDP.

State social insurance and compulsory health insurance contributions are imposed on labour income in Lithuania. The total state social insurance contribution rate paid by the insurer and the insured (SSI) that is imposed on remuneration and other employment related income is 40 per cent. The insurer pays the main part – contributions of 31 per cent and the insured pay contributions of 9 per cent (see Fig. 4). An attention should be drawn to the fact that this contribution rate also comprises the compulsory health insurance (CHI) contribution rate (3 per cent as contributions paid by the employer and 6 per cent as contributions paid by the employee). In order to clarify the structure of SSI contribution rate, it is necessary to discuss the changes implemented in 2006, i.e. starting from 1 January 2006 the contribution rate for insurance against the accidents at work was started being differentiated according to the insurers' risk and potential injury indicators in organisations – the social security contribution rate for accidents at work and occupational diseases that has to be paid by the insurer was set according to three affirmed groups of social security contribution rates for accidents at work and occupational diseases (they are affirmed of annually through the law on confirming the budget indicators of the state social insurance fund). In 2012 group IV for social contributions on accidents at work and occupational diseases was introduced (this group is supposed to be the most risky one considering the level of insecure labour in an enterprise), however, none of Lithuanian enterprises has been included into the list so far.

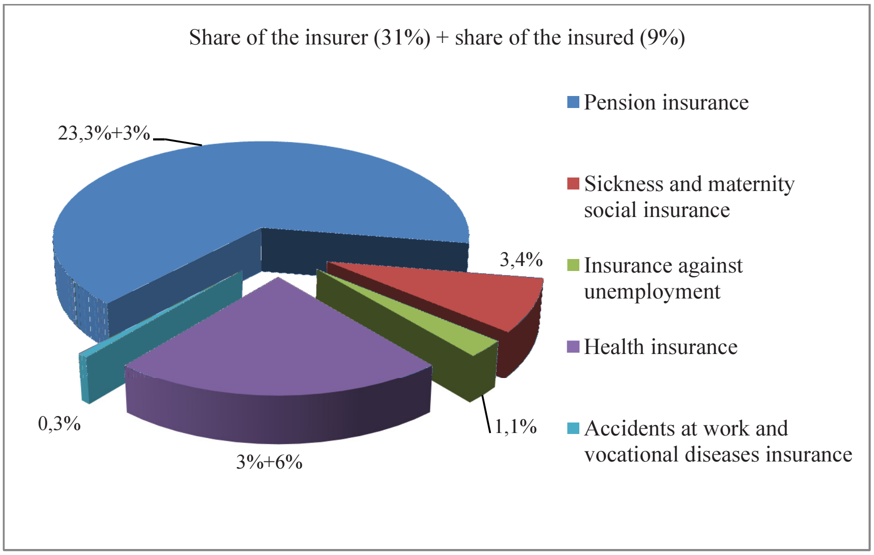

Fig. 4. Distribution of the general rate of the state social insurance into different social insurance types in 2013 (LRS, 2012)

In 2008 the following general rates of state social insurance contributions were applied in Lithuania: 31 per cent of the contribution (3 per cent of which was allocated to the compulsory health insurance) for the insurer, the insured had to pay 3 per cent contributions. The biggest changes in state social insurance rates took place in 2009. First of all, the general SSI contribution rate significantly increased as a rate of 6 per cent was affirmed of to be paid by the insured persons for the compulsory health insurance that had earlier been integrated into the income tax of natural persons (up until 2009 the health insurance contributions had to be paid only by the insurers). Therefore, a new taxation rate scheme was introduced where the employer pays state social insurance contributions of 31 per cent (with an integrated compulsory health insurance contribution rate of 3 per cent) and the employee pays a contribution of 9 per cent (with an integrated compulsory health insurance contribution rate of 6 per cent). The order of paying sickness and maternity social insurance contributions has also changed. Since 2009 these contributions must be paid only by the insurers (i.e. the insured don't have to pay the 0.5 per cent contributions on sickness and maternity social insurance). It should also be noted, however, that since 2009 the insured have to pay a 0.5 per cent higher rate of pension insurance contributions. Therefore, these changes did not have any significant influence on the total amount of contributions.

In 2009, Lithuania started a social insurance scheme for persons receiving authorship agreements, income from performing and sports activities, farmers and their partners. The order of social insurance of self-employed people has also changed: in 2009 self-employed people paid contributions from 1/3 of their income, in 2010 – 2/3 of their income and in 2011 they already had to pay social insurance contributions from the whole amount of their income. Although the contribution rate for CHI did not change in 2013, however, when the minimum monthly wage was increased, which is the contribution base for CHI, persons conducting individual activity under a business certificate as well as self-employed persons must pay a contribution of 90 Lt (up until now the rate for these contributions was 77 Lt).

Different types of income in Lithuania are taxed with different contribution rates (see Table 3). In 2013, as compared to 2012, the contribution rates on labour income have not changed: the 31 per cent rate paid by the insurer is allocated to different types of insurance – state social pension insurance, sickness and maternity social insurance, insurance against unemployment, accidents at work and vocational diseases insurance as well as health insurance.

The 9 per cent contribution rate paid by the insured is allocated to pension social insurance (3 per cent) as well as health insurance (6 per cent.).

Table 3. State social insurance contribution rates in Lithuania in 2013

The payer	The taxable base	Insurer rate, %				Insured rate, %	Contribution base ceiling
		I gr.	II gr.	III gr.	IV gr.		
1	2	3				4	5
Persons working under an employment contract	Remuneration for work	30.98	31.22	31.7	32.6	9	–
Persons related to the insurer by employment relationship or corresponding relationship (e.g. receiving income from sports or performing activities)	Income	30.98	31.2	31.7	32.6	9	–
Persons not related to the insurer by employment relationship or corresponding relationship	50 per cent of the income	28.50				9	4 II* /monthly; 48 II/per year
Persons receiving income under authorship agreements, related to the insurer by employment relationship	Income	30.98	31.22	31.7	32.6	9	
Persons receiving income under authorship agreements not related to the insurer by employment relationship	50 per cent of the income	29.70				9	4 II / monthly; 48 II/ per year
Self-employed people (except the persons that conduct an activity under a business licence and owners of individual enterprises as well as practical members of partnerships)	50 per cent of the taxable income	28.50				9	4 II / monthly; 48 II/ per year
Persons conducting activities under a business licence	50 per cent of the basic pension					9	–
Owners of individual enterprises; practical members of partnerships and limited partnership business entities; members of small partnerships	An amount withdrawn by the owner of the individual enterprise or the partnership for his or her personal use that is declared at the State Tax Inspection as employment related or corresponding income	26.3				9	4 II / monthly; 48 II/ per year

*II – insurable income (in 2013 – 1488 Lt)
4 II – the amount of 4 insurable incomes (5952 Lt)
48 II – the amount of 48 insurable incomes (71424 Lt)

The amount of state social insurance contributions depends on the income amount received and declared by a person or the amount of the remuneration for work, however, persons with business licences are an exception here. Attention must be paid to the fact that certain activities have a contribution base ceiling (see Table 3, column 5). It means that the income is exempt of taxes starting from the amount that exceeds the set insurable income amount. In Resolution No. 5 of 9 January 2013 the Government approved the taxable earnings amount of 2013 – 1488 Lt. Such an amount, however, is not fixed for persons working and receiving income under employment agreements.

Summarising, we may note that taxes in all three Baltic States differ. Compulsory social insurance contributions must be paid in Latvia, a social tax which finances health and pension insurance is applied in Estonia, whereas in

Lithuania people pay state social insurance as well as compulsory health insurance contributions. Each of the mentioned contributions differs not only in their names but also in contribution payers and contribution rates.

5. Analysis of personal labour income taxation

The burden of personal income taxation born by the inhabitants of Lithuania, Latvia and Estonia is different. In order to analyze the burden imposed on labour income, we compared the personal income tax, state social insurance and compulsory health insurance contribution rates and other related indexes of each country. Figure 5 shows personal labour income taxation in Lithuania, Latvia and Estonia in 2013.

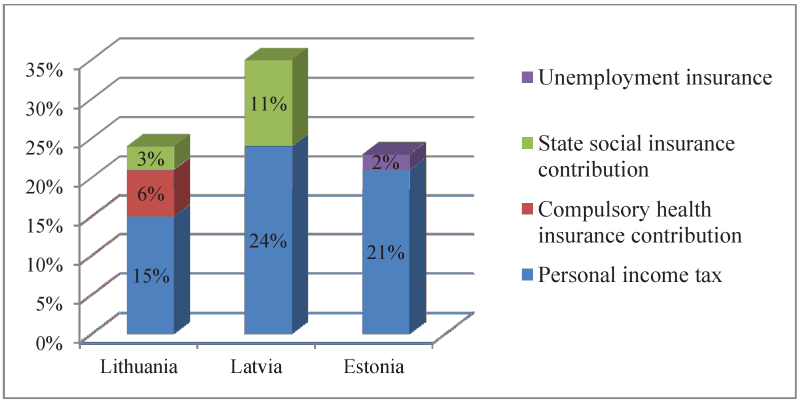

Fig. 5. Standard rates of personal income taxes and contributions from the gross salary in 2013 in per cent

We may tentatively note that in 2013 the highest rate income taxation is specific to Latvia where personal income taxation rate is 35 per cent, 24 of which are personal income tax and 11 per cent – compulsory social insurance contributions. Personal income in Lithuania is taxed at a rate of 24 per cent (15 per cent of which are personal income tax, 3 per cent state social insurance and 6 per cent compulsory health insurance contributions), i.e. lower by 11 per cent than in Latvia. In the meantime, in Estonia the personal income is taxed only at the rate of 23 per cent (21 per cent of which constitute the personal income tax rate and 2 per cent – insurance from unemployment) – which is lower than in Lithuania by 1 per cent and even 12 per cent lower than in Latvia. However, if we analyse the situation of the taxes paid by the employer from the earnings of a person, the situation is cardinally different: the highest burden is carried by Estonian employers – it is taxes are higher by 3 per cent here than in Lithuania and even by 9.91 per cent higher than those of the Latvian employers (see Table 4).

Table 4. The main rates applied to employment earnings in 2013 in per cent

Taxes and contributions		Lithuania	Latvia	Estonia
SSI and CHI	Employer	31	24.09	34
	Employee	9	11	2
Personal income tax		15	24	21
Labour income taxation, % of GDP (in 2011)		12.7	13.8	17.1

It can be stated that labour income taxation with personal income tax, social security and compulsory health insurance in Lithuania in comparison with labour income taxation in Latvia and Estonia is the lowest one. If we analyse the taxation range (base – minimum monthly wage), i. e. how big is the gross salary of an employee, what income is at his or her disposal after taxes as well as how much the employer has to pay in taxes from the gross salary of the employee, it can be stated that the smallest taxation range is in Lithuania, the highest in Latvia and Estonia occupies the intermediate position. However, according to the data provided in the Eurostat database (EC

2013b) on income taxation (% of GDP), the highest taxation burden is born by the Estonian and the smallest – in Lithuania. Another informative indicator provided in the Eurostat database is the implicit labour income tax rate – in 2011 it was the same in Latvia and Lithuania – 32.0 per cent and the highest in in Estonia (36.2 per cent.). This can be explained by the fact that there are quite a few exceptions and exemptions in the Latvian (and Lithuanian) taxation system of labour income.

6. Conclusions

Labour income received by employed people for their work is the main source of personal income. Personal income tax and social security as well as health insurance taxes are imposed on labour remuneration. The main and the highest tax paid by employees on remuneration is personal income tax. Proportional tax rates are applied in the Baltic States to calculate this tax; there is also a set amount of non-taxable income. During the analysed period the highest personal income tax rate as well as the lowest non-taxable amount was applied in Latvia. The lowest personal income tax burden is born by Lithuania.

Social security and health insurance contributions are imposed on labour income. Payment of these contributions, according to the proportion established by the state, is shared between the employer and the employee. Social tax in Estonia is paid only by the employer; however, the tax on unemployment social security is shared by the employer and the employee at the ratio of 1:2. In Lithuania and Latvia it is the employer that pays the bigger part of the taxes (respectively 31 and 24.09 per cent), the other smaller amount of contributions – respectively 9 and 11 per cent – is deducted from the remuneration of the employee and other employment related income.

Although the performed research revealed that the highest rate labour income taxation is applied in Latvia, the implicit tax rate that shows the average effective tax burden on the labour income is the highest in Estonia. Comparison of the main taxation rates (non-taxable minimum, standard rates) only partially reveals the national level of the labour income taxation. A more accurate description of the taxation level can be provided only having evaluated the taxation base of taxes and contributions, tax exemptions and having evaluated such factors as the implicit tax rate or taxation of labour income by percentage of GDP.

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